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Memorandum

TO: BATA Oversight Committee

DATE: April 2, 2008

FR: Deputy Executive Director

W. I. 1254

RE: Resolution No. 78 – Authorizing the Form of the Preliminary Official Statement for Refunding Bonds

Staff recommends that the Committee refer to the Authority for approval, Resolution No. 78 authorizing the attached form of the Preliminary Official Statement to be used in marketing up to \$1.2 billion in toll revenue refunding bonds.

Background:

At the special meeting on March 5, 2008, the Authority approved Resolution No. 77 authorizing up to \$1.2 billion in toll revenue refunding bonds. Since December, the Authority has been briefed on the impact Wall Street's credit issues are having on the government tax-exempt debt market. Particularly impacted have been the "AAA" bond insurance industry who insure over half of all tax exempt debt issuances.

BATA has an insured debt portfolio of nearly \$3.0 billion. The insurers are XL Capital, downgraded from "AAA" to "below investment grade" and Ambac, who retains two of three "AAA" ratings (Fitch is AA). Both firms remain on "negative outlook" by all three national credit rating services. This drop in credit quality, as well as a continuing concern over further "sub-prime" issues, have significantly increased the variable rate interest cost now approaching \$7.0 million per month over the equivalent short-term tax exempt index.

Resolution:

Our banking and legal teams believe a controlled approach will help to stabilize the BATA debt. The steps are:

- Temporarily purchase or tender the bonds in order to lower interest rate costs as quickly as possible. This will "park" the bonds out of the current high interest rate market.
- Modify liquidity (bank) documents for the \$1.9 billion Ambac insured Variable Rate Demand Obligations (VRDOs). To remove the restrictive document clauses and allow the bonds to trade at more normal levels.

- Refinance \$500 million in XL Capital bonds. We believe recovery in either XL Capital credit quality or the auction rate market to be unlikely.
- Refinance the remaining \$510 million in Ambac auction rate bonds.

Our banking and finance team believe that the above steps provide BATA with the best opportunity to reduce interest rate costs as quickly while preserving the insurance value on the bulk of the portfolio and the very cost effective interest rate swaps on all of the portfolio.

Resolution No. 78:

Resolution No. 78 approves the form of the Preliminary Official Statement. When finalized, the Official Statement is the primary issuer document used in the marketing, selling and investor information related to the financing. The Official Statement describes the purpose for the issuance, information on the issuer and our financial position, toll setting powers and covenants to maintain tolls, as well as the rights and remedies of the bondholders.

Staff requests that the Committee authorize forwarding to the Authority BATA Resolution No. 78.

Andrew B. Fremier